

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: Dr. T.C. NAIR, WHOLE TIME MEMBER**

ORDER UNDER SECTION 11 AND 11B OF SEBI ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS, 1995 AND CORRESPONDING REGULATIONS UNDER REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS, 2003 IN THE MATTER OF IN THE MATTER OF CARDIOID SECURITIES PVT. LTD., ABHAYRAJ SHUKLA AND PARIMAL BHAGVATILAL BHALJA IN THE SCRIP of SARITA SOFTWARE & INDUSTRIES LTD.

1.1 Securities and Exchange Board of India (hereinafter referred to as "SEBI") had received a complaint from M/s. Manashvi Securities Ltd. (hereinafter referred to as "Manashvi"/ "the complainant") stating that Shri Parimal Bhagvatilal Bhalja, (hereinafter referred to as "Shri Parimal"/ "the client"/ Shri "Bhalja"), client of the complainant had purchased 1,95,000 shares of Sarita Software & Industries Ltd. (hereinafter referred to as "Sarita Software") and absconded without making payment. The complainant further alleged that the client had in collusion with the sellers committed a fraud on them. SEBI forwarded the complaint to the Bombay Stock Exchange Ltd. (BSE) asking them to conduct the investigation into the matter.

1.2 In view of the findings of BSE, a preliminary enquiry was ordered by SEBI on August 06, 2001, SEBI ordered a formal investigation into the trading of the scrip of Sarita Software on February 4, 2002. Investigation revealed that Sarita Software is a company belonging to Vasavi group of companies and

was listed at Hyderabad, Ahmedabad and Chennai Stock Exchange besides BSE. The information obtained from these Stock Exchanges revealed that there was no trading in the scrip on the exchanges during the period from February 15, 2001 to March 9, 2001.

- 1.3 The price volume data of the scrip at BSE during the investigation period from February 26, 2001 to March 16, 2001, was as under:

Date	Open	High	Low	Close	Volume
26-Feb-01	26.5	27.9	24.7	25.8	51600
27-Feb-01	25.5	25.9	24.5	25.1	38100
28-Feb-01	27	27	24.2	25.6	61700
1-Mar-01	24.5	25.75	23.8	24.85	54975
2-Mar-01	23.1	24.2	22.9	22.9	36660
5-Mar-01	24.5	24.7	21.1	24.35	101640
7-Mar-01	24.5	25.5	23.25	25	90900
8-Mar-01	24.5	25.25	23.05	23.6	42600
9-Mar-01	22	24.1	21.75	22.15	223890
12-Mar-01	21	22	21	21.45	27000
13-Mar-01	19.75	19.75	19.75	19.75	100
14-Mar-01	18.2	18.2	18.2	18.2	44950
15-Mar-01	19	19.1	19	19	3610
16-Mar-01	17.5	18.25	17.5	17.5	42290

- 1.4 The investigation revealed that there was not much movement in the price of the scrip during the period from February 26, 2001 to March 8, 2001. The volume during this period showed similar trend. On March 09, 2001 the scrip opened at a price of Rs. 22 and reached an intraday of Rs.24.10 and closed at Rs.22.15 and the trading volume was highest at 2,23,890 shares. The next highest volume of 1,01,640 shares was on March 05, 2001. Further, it was seen that after March 09, 2001, the volume traded had never crossed 50,000 shares. The details of trading in the scrip in the above exchanges were

sought. It was further found that there were no major corporate announcements during the above period.

1.5 Investigation revealed that the top trading brokers, namely, Renaissance Securities Ltd., Anand Rathi Securities Pvt. Ltd. and Shilpa Stock Brokers Pvt. Ltd., executed the sell orders on behalf of their clients namely, Abhayraj Shukla through sub-broker, Millennium Securities, Cardioid Securities Pvt. Ltd. traded through sub-broker D C Agarwal and through sub-broker Adhunik Finance respectively. Further, it was found that the selling clients Cardioid Securities Pvt. Ltd. (hereinafter referred to as “Cardioid”) and Shri Abhayraj Shukla (hereinafter referred to as “Abhayraj”) were apparently connected as they had indulged in off market share lending transactions. It was alleged that Cardioid and Shri Abharaj colluded with Shri Parimal Bhalja, client of Manashvi and dealt in the scrip of Sarita Software in a fraudulent manner.

2.1 Accordingly, SEBI vide letter dated September 14, 2004 called upon Cardioid Securities Pvt. Ltd., Shri Parimal Bhalja and Shri Abhayraj Shukla to show cause why suitable directions including directions restraining them from buying, selling or dealing in securities for a specified period under Section 11 (4) and 11 B of the SEBI Act, 1992 read with Regulations 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 should not be issued against them.

2.2 Cardioid vide its letter dated October 14, 2004 interalia replied to the show cause notice as under:

- i. *They deny of knowing Mr. Parimal Bhalja and having any relation with Shri Bhalja therefore the question of involvement does not arise. They also do not know Mehta Finance, a sub broker of M/s. Manashvi Securities Ltd. and were not aware whether the said Shri Bhlja was client of M/s. Mehta Finance or a client of the broker directly.*
- ii. *From the show cause notice they have noticed that Mehta Finance was the sub broker and Shri Bhalja was the client of M/s Mehta Finance and was carrying out transactions through M/s. Mehta Finance for a period of 2 years. Further BOLT was provided to Shri Bhalja 3 months prior to March 9, 2001 and a limit of Rs. 20 lakh with maximum limit of Rs. 1 crore was given to him gradually as and when required.*
- iii. *As per the Rules, the broker cannot permit BOLT to be operated by the client. BOLT can be operated by authorized person of the broker only. But from the show cause notice it appears that the broker has itself permitted Shri Bhalja to do trade in any manner whatsoever. In such circumstances, how a broker can make allegations of collusion against any one else when the broker itself was in fault. In such circumstances, when a broker has taken this risk, it cannot blame others.*
- iv. *It is also not clear that whether Shri Bhalja has acted as client directly or client of the sub broker and whether the said sub broker was registered or not.*
- v. *According to the statement of Manashvi Securities the limit to Shri Bhalja was upto 20 lakh and the same was extended gradually upto 1 crore. Taking into account the limit could have gone upto 1 crore automatically as per the statement of Manashvi Securities Ltd., the limit was gradually extended by them and did not happen automatically. Therefore the problem of technical default is incorrect.*
- vi. *Manashvi Securities Ltd. has further revealed that he learnt of the fraud on March 9, 2001 itself. However, in the BSE Arbitration it has been shown that the said broker had continued the transaction of Shri Bhalja upto March 16, 2001.*
- vii. *They were not aware about the security deposit amount and other terms between the said broker and Shri Bhalja, therefore they are not in a position to submit their submissions on the aforesaid aspect. The allegation of fraud is misconceived and it appears that there is a collusion between M/s Manashvi Securities and Shri Bhalja.*

viii. They have sold the shares as the market was available at that particular time and they have not committed any violation of Regulation 3 and 6(a) of SEBI(PFUTP) Regulations, 1995.

2.3 Shri Parimal Bhalija vide letter dated September 27, 2004 interalia made the following submissions:

- i. At the outset, it is denied that Shri Bhalji is a client of the complainant. Further it is denied Shri Bhalji purchased 1,95,000 shares. SEBI has failed to substantiate the statement by the complainant that Shri Bhalji is a client of Manashvi. Shri Bhalji has been staying in the same premises since past 5 years. SEBI has failed and neglected to investigate before declaring him as "absconding".*
- ii. No evidence has been collected to connect that Shri Parimal has conducted any irregularity.*
- iii. Shri Parimal has no connection with Shri Abhayraj Shukla or anyone in particular as mentioned in the show cause notice.*
- iv. No terminal has been given to Shri Parimal. SEBI has taken words of the complainant and has not bothered to verify the facts with supporting documents.*
- v. The charges that Shri Parimal is called as an absconder should be dropped and that Shri Parimal has not violated any rules and regulations as mentioned therein in the show cause notice.*

3.1 Due to change in competent authority, the matter was put afresh before me. Accordingly, Cardioid Securities Pvt. Ltd., Shri Parimal Bhalja and Shri Abhayraj Shukla were given an opportunity of hearings before me on January 4, 2007 and February 13, 2008. However none of the above parties attended the hearing on both the dates. Having complied with the principles

of natural justice, I am proceeding ahead based on the material available on record.

- 4.1 I have carefully considered the findings of the investigation, show cause notice and the replies to the show cause notices made by Cardiod and Shri Parimal Bhalja. I note that neither any reply was received nor any representative appeared on behalf of Shri Abhayraj Shukla, therefore I am proceeding exparte on the basis of material available on record. My finding are as under:
- 4.2 From the perusal of price volume data, I find that there is not much movement in the price of the scrip during the period from February 26, 2001 to March 8, 2001. An analysis of the price movement for the above period reveals that the price of the scrip has moved in the range of Rs.23 to Rs.28 on BSE. On March 9, 2001, the scrip opened at a price of Rs.22 and reached an intra-day high of Rs.24.10 and closed at Rs.22.15. On this day, the volume was the highest viz., 2,23,890 shares. From March 12, 2001 onwards, the price of the scrip and the volume decreased considerably.
- 4.3 From the investigation, I note the details of the top trading members in the scrip on March 9, 2001 as under :

Name of the Buying Broker	Purchase Quantity	% Concentration	Name of Selling Broker	Sale Quantity	% Concentration
Manashvi Securities Ltd. – Client, Parimal Bhagwatilal Bhalja	1,95,000	87.10	Renaissance Securities Ltd. – Client, Abhayraj Shukla traded through sub-broker, Millennium Securities	90,000	40.20
			Anand Rathi Securities Pvt. Ltd. – Client, Cardioid Securities Pvt. Ltd. traded through sub-broker DC Agarwal.	48,755	21.78
			Shilpa Stock Brokers Pvt. Ltd. – Client, Cardioid Securities Pvt. Ltd. through sub-broker Adhunik Finance.	45,000	20.10

It is seen that Manashvi Securities Ltd. (hereinafter referred to as “Manashvi”) was the largest buyer on March 9, 2001 whereas Renaissance Securities Ltd., (hereinafter referred to as “Renaissance”), Anand Rathi Securities Pvt. Ltd. and Shilpa Stock Brokers Pvt. Ltd. were the top-selling brokers.

- 4.4 I note that the transactions got executed on punching of the buy orders by Shri Bhalja, the client of Manashvi. Shri Abhayraj Shukla received 11,365 shares from Cardioid in off-market transactions on March 13, 2001 and March 15, 2001. From the investigations and statement of Cardioid, I note that the selling clients Cardioid and Shri Abhayraj Shukla are connected as they have indulged in off-market / share-lending transactions. From the information collected from the selling brokers, namely, Renaissance

Securities Ltd., Anand Rathi Securities Pvt. Ltd. and Shilpa Stock Brokers Pvt. Ltd., (hereinafter referred to as “Shilpa Stock Brokers”), I note that Shilpa Stock Brokers informed SEBI that they dealt in the scrip during the relevant period on behalf of their sub-broker namely, Adhunik Finance Pvt. Ltd. It was informed that since BSE was enquiring into the trading in the scrip on March 09, 2001, as a matter of precaution their sub-broker withheld the payment to the client namely, Cardioid. I note that Shilpa Stock Brokers furnished a copy of the arbitration award based on which their sub-broker released payment of Rs.10.70 lakh to Cardioid after obtaining a bank guarantee for the like amount.

4.5 I note that another selling broker namely, Anand Rathi Securities Pvt. Ltd. (Anand Rathi) informed that they have dealt in the scrip during the relevant period on behalf of their sub-broker namely D C Agarwal Share & Stock Broker Ltd., the ultimate client was Cardioid. Although, pay-out against the sale by their sub-broker was due on March 17, 2001, as a matter of precaution they withheld the pay-out since BSE had sought some information regarding this transaction. However, I note that BSE had advised them to release the pay-out on March 20, 2001, after verifying the various documents. Accordingly, they released the pay-out to their sub-broker on or around March 22, 2001 as advised by the exchange.

4.6 Another selling broker, Renaissance submitted the details of trades executed by them in the scrip of Sarita Software. After perusal of the trades, I find that they have dealt on behalf of their sub-broker, Millennium Securities on behalf of the ultimate client, Shri Abhayraj Shukla. From the client account

details submitted by them, I observe that they have made payment to Millennium Securities, their sub-broker.

- 4.7 I note that further information was sought from the ultimate clients namely, Cardioid and Shri Abhayraj Shukla. However, I find that Shri Abhayraj Shukla did not respond to the summons issued by SEBI where as Cardioid submitted the details of their trades done in the scrip of Sarita including the bank account and demat account details. From the data submitted by Cardioid, I observe that on November 2, 2000, Cardioid received 2,00,000 shares from Vasavi Holdings & Investments Ltd. (hereinafter referred to as 'Vasavi'). Cardioid submitted that these shares were given towards supply of software made to them and submitted documentary proof by way of the supporting bills for the same.
- 4.8 It is seen that Cardioid purchased 32,400 shares of Sarita Software and sold 2,01,620 shares through various brokers/entities as per the details furnished by them. All these transactions were executed after Cardioid received 2,00,000 shares from Vasavi.
- 4.9 A statement of the transactions of the demat account of Shri Abhayraj Shukla for the period from January 1999 to March 2002 were obtained from the depository participant, ICICI Ltd. (client ID - 12118005). Scrutiny of the transaction statement revealed that 11,365 shares were received from Cardioid and delivered to the brokers' pool account on March 13, 2001 and March 15, 2001 respectively. There were no other transactions in the scrip of Sarita Software appearing in the statement. The delivery of shares for the sales made by him on March 9, 2001, was made from the balance of securities lying on his behalf with the sub-broker and the broker. Shri

Abhayraj arranged the shortage of shares from Cardioid indicating that they were apparently connected to each other. As regards the summons issued to Shri Bhalja, he did not respond to the summons of SEBI. Manashvi stated that Bhalja is absconding and is not traceable. Shri Bhalja had claimed that he was residing at the same premises for past 5 years. However the fact remains that all the attempts made by SEBI by means of Hand Delivery, courier as well as registered post with the AD, to deliver the notices failed even after the entity replied to the show cause notice through an advocate. Even the advocate claimed that he was just hired for replying to the show cause notice no. IVD2/SM/SARITA/20624/2004 only and hence the attempts to deliver the subsequent notices through the advocate also failed.

In view of the above, I feel that the claim of the noticee that he has been residing at the same address for the past five years is either wrong or he has been intentionally evading service of the notices.

- 4.10 I note that summons was sent to Cardioid and the statement of Shri Paras Chaplot, Director of Cardioid, was recorded on August 27, 2002. When queried about the apparent discrepancy between the price at which Cardioid has purchased the shares from Vasavi at the then prevailing market price, he stated that since the scrip is illiquid, the market price of the scrip was not reckoned while arriving at the consideration. He admitted the transfer of 11,365 shares to Shri Abhayraj Shukla on March 12, 2001 and confirmed that it was an off-market transaction. However, he denied knowing Shri Parimal Bhalja, the selling client. He stated that he had entrusted the shares of Sarita Software with his sub-brokers and when there was a buy order, the shares got sold.

- 4.11 Shri Ashish K Shah, Managing Director of Manashvi Securities in its statement stated that they had given a trading terminal to Shri Parimal Bhalja who had been a client of Mehta Finance, a sub-broker of theirs for a period of about two years. The terminal was given to Shri Bhalja about 3 months prior to the transaction executed by him on March 9, 2001. I note that the statement of Shri Ashish K. Shah was confirmed by Shri Bharat Mehta, Proprietor of Mehta Finance, who was present while his statement was recorded.
- 4.12 Shri Ashish Shah further stated that they had given a trading limit of Rs. 20 lakh to Shri Bhalja. He stated that they normally increase the trading limit available to Shri Bhalja upto Rs.1 crore gradually in increments of Rs.20 lakh after assessing the trading profits/losses. However, due to a technical problem on the administrator terminal, they could not set the limit on March 9, 2001. Therefore, the maximum limit of Rs.1 crore permitted to Shri Bhalja on the previous trading day was available to him on March 9, 2001. He further stated that they came to know of the fraud committed by Shri Bhalja only at the end of the day when they finalized the day's sauda. He stated that they informed BSE, the same day.
- 4.13 From the chronology of facts and circumstances of the case, I find that Cardioid disposed of a part of the 2,00,000 shares of Sarita received from Vasavi in the market. Besides, Cardioid transferred some of the shares to Shri Abhayraj Shukla through off-market transactions. I find that Cardioid and Shri Abhayraj Shukla colluded with Shri Bhalja whereby on March 9, 2001, Cardioid put sell orders through Adhunik Finance (45,000 shares) who is a sub-broker of Shilpa Stock Brokers and DC Agarwal Share & Stock

Broker (48,755 shares) who is a sub-broker of Anand Rathi Securities. Shri Abhayraj Shukla put sell orders for 90,000 shares through Millenium Securities who is sub-broker of Renaissance Securities. Thereafter, Shri Parimal Bhalja who was operating a trading terminal provided to him by Manashvi punched in the buy order for 1,95,000 shares. Manashvi has stated that they could not set trading limits on the terminal provided to Shri Bhalja due to certain technical problem on the administrator terminal. Taking advantage of the same Shri Bhalja managed to punch buy order valuing about Rs.45 lakh and absconded without making payment.

4.14 It is pertinent to note here that pursuant to the repeal of 1995 Regulations, the corresponding provisions are contained in Regulation 3 and 4 of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. Therefore, the present order is being passed under 2003 Regulations.

4.15 In view of the above facts, I find that the trading clients, namely, Cardioid Securities Pvt. Ltd., Shri Abhayraj Shukla and Shri Parimal Bhalja have dealt in the scrip of Sarita Software in a fraudulent manner in violation of Regulations 3 and 6(a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 which is as under:

3. Prohibition of certain dealings in securities

No person shall buy, sell or otherwise deal in securities in a fraudulent manner.

6 (a) No person shall –

In course of his business, knowingly engaged in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities.

- 5.1 In the interests of the orderly development of securities market and in order to protect the investors from any fraud likely to be committed on them by the above-mentioned trading clients, I in exercise of powers conferred upon me under section 19 of the SEBI Act, 1992 read with Section 11 and 11B and Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, hereby restrain M/s Cardioid Securities Pvt. Ltd., Shri Parimal Bhagvatilal Bhalja and Shri Abhayraj Shukla from accessing the securities market either directly or indirectly and also prohibit it from buying, selling or otherwise dealing in securities, in any manner whatsoever, for a period of 6 months.
- 5.2 This order shall come into force with immediate effect.

DATE: 14.1.2009
PLACE : MUMBAI

T . C. NAIR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA